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April 4, 2008

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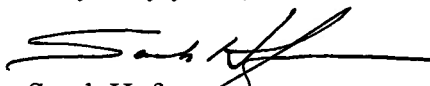
Re: Docket 7081 – DPS Recommendation re Budget Levels for EEU

Dear Mrs. Hudson:

By Memorandum dated March 12, 2008, the Board asked the parties to comment on what budget estimates should be used for the EEU for purposes of preparing a 20-year forecast of energy efficiency savings expected to be achieved from the EEU's system-wide programs. Attached are the recommendations of the Department of Public Service for the assumed budget levels for the EEU over a 20-year horizon, and comments on the budget for the EEU for 2008 through 2011.

Thank you for your assistance in making this filing.

Very truly yours,


Sarah Hofmann
Director for Public Advocacy

cc: Electronic Service List



**DPS Recommendations for Assumed Budget Levels for the EEU over a 20 Year
Horizon, and
DPS Comments on the Budget for the EEU for 2008 through 2011**

With this filing, the Department of Public Service provides its recommendations to the Public Service Board concerning the 20-year budget levels for the Energy Efficiency Utility. This filing is in response to the Memorandum from Ann Bishop on March 25, 2008. This recommendation is being provided to assist in efforts to develop a baseline projection of delivered energy efficiency programs through an energy efficiency utility consistent with the Board's Order in Docket 7081 and paragraph 61 of the Memorandum of Understanding filed by the parties in that investigation. (EVT has given this forecast of efficiency potential the name Forecast 20 and adopt it here for convenience). The Board is also seeking guidance from the Department concerning geo-targeting over that long-term horizon for purposes of the forecast.

The Department's recommendation overlaps with the Board's need to establish a budget for the 2008-2011 contract cycle. Consequently, the Department is also making recommendations related to the 2008-2011 budget/contract cycle for the Efficiency Utility.

By way of background, the Department sought and received assistance from GDS associates in updating their model developed during the previous EEU budget-setting process. The Department makes these recommendations, in part, based on analysis and guidance from GDS building on their 2006 modeling work for the DPS.

Overview and Recommendations

Budget Recommendation

For purposes of Forecast 20, the Department recommends that the efficiency utility budget be held at a constant nominal level for 2009 and be allowed to increase with inflation for 2010 and beyond. Consistent with this recommendation, the Department recommends that the budgets for the EEU be set at a constant nominal level for 2009 and be adjusted for expected inflation in 2010 and 2011.

Geo-targeting

For purposes of Forecast 20, the Department recommends that the Board continue to recognize existing geo-targeting (as modified below) for two years and request a forecast of statewide programs to follow for the remaining 18 years of the forecast. Early, unverified geo-targeting savings results appear promising, but these programs have had only recently fully ramped up. A determination of the success of geo-targeting is premature with the limited data available. Whether geo-targeting continues beyond two years should depend on the results of evaluation efforts. Groundwork for these

evaluation efforts has been started; however we don't expect any results for at least 9 months.

The Department further recommends that the Newport targeting be discontinued after 2008. The VSPC was recently notified by Vermont Electric Cooperative that the fundamental T&D upgrade that serves as the basis for targeting the Newport area no longer applies. Consequently, the Department recommends that the those funds targeted at the Newport area be re-applied elsewhere to help reduce summer peak loads.¹ How and where those program activities are reapplied can be a topic for separate proceedings. At this point, we recommend that they either be reallocated by adding to existing statewide programs, or as in increment to the other geo-targeted areas of the state that have been targeted for summer peak load reductions. For purposes of the Forecast 20, we suggest the latter path. The effect of that change should be applied beginning in January 2009.

In recommending that geo-targeting not be included in the Forecast 20 for the last 18 years, the DPS must clarify two points. First, we believe that geo-targeting will continue at some level and in some areas beyond 2010, however, it seem premature to be identifying the actual areas and scope of targeted programs. Second, we recommend that the increment of funding currently used for geo-targeting not be constrained by geographic and class equity considerations. Third, the strategic focus of EEU programs will need to shift toward greater emphasis on targeted summer peak reductions.

Basis for the Recommendations

The Department makes its recommendations on the budget based on the following.

First, the Department sought and received assistance from GDS in updating its efficiency potential analysis and the associated budget implications of that update. Among the Department's concerns in seeking this assistance were the following:

- The potentially significant changes related to baseline considerations of product efficiencies through federal legislation that could have significant budgetary considerations.
- Implications on the budget of updated technical specifications described in the Technical Reference Manual and/or updated information on the administrative costs of programs given recent experience.
- Rapid changes in the market for Compact Fluorescent Lamps (CFLs) that has implications for the EEU budget, given the heavy reliance on CFL's in the residential lighting program.
- The implications of higher avoided costs on measures and programs.

GDS concluded that changes to the first two items listed above could justify a downward adjustment of approximately 7% to the budgets of EVT. However, they concluded that

¹ The Department recommends that the existing efforts targeting Newport be continued through 2008, recognizing that these efforts are both cost-effective and serve an important research and trial.

these reductions could be offset in their entirety each year by aggressive promotion of other existing measures and identification, promotion and installation of new and evolving technologies. Thus, the 2008 budgets could be maintained for some time. The GDS recommendations include no budget adjustment during the 2009 through 2011 period as a result of the upcoming federally mandated changes in lighting efficiency standards, as it effectively bans the current generation of inefficient incandescent lamps starting in 2012. Beyond 2012, there appears to be considerable room for efficiency improvement between federal standards and efficient lighting, whether through CFL programs or LED lighting initiatives.

Due to the short timeframe, GDS did not model the avoided costs for program and measure screening purposes based on our most recent updates to the avoided costs adopted by the Board in December of 2007. Nevertheless, based on review of the measures that, under previous avoided cost projections, were found not to be cost-effective, GDS and the Department believe that some additional measures and programs may now screen that were not deemed cost-effective when last we ran the models. The changing nature of the CFL marketplace in Vermont was also not included in their analysis due to the speculative nature of the issue at this stage.

Second, while the 2007 numbers are still preliminary, early indications from EVT suggest that the EEU programs have had considerable success during a period when energy costs have been especially high. Unverified figures from 2007 suggest that the EEU has matched, and may have even exceeded annualized load growth in the state with energy savings from program activities. Evidence of this success can now be seen through both the bottom-up detailed analysis M&E and the top-down view of year-over-year sales growth relative to our neighbors. The success of the EEU through program savings translates into growing confidence in the success of their delivery efforts and program budgets.

Third, the Department would like to see some measure of program stability going forward following the massive program expansion of EVT programs following the 2006 Board budget increases, and the ambitious geo-targeting of that budget increment. Despite its successes, the EEU has been challenged to engage its program spending to keep up with its expanding budgets over this short span of time. In order to provide EVT an opportunity to adjust to current spending levels, we recommend that the first year adjustment remain constant at 2008 nominal levels.

On a going forward basis we approach a long list of significant changes taking place in the context of the efficiency utility, including changes to the structure of the entity authorized under S.209, added planning responsibilities, program delivery responsibilities that are the current subject of Board workshops, and potential expansion to unregulated fuels pursuant to S.209. Thus, we recommend that 2010 and 2011 budgets only be adjusted for expected inflation.

Fourth, the Efficiency Utility is taking on the aforementioned significant additional planning responsibilities, largely in the context of its role in the development of forecasts

and planning responsibilities to the VSPC. We recommend that the budget for these additional responsibilities be netted from the constant real budgets going forward such that the real budget for acquiring additional savings is reduced by the amount budgeted for its planning responsibilities.

These recommendations represent those of the Department independent of its view of other significant changes that are in play either as a result of current Board workshops or as a result of changes in S. 209. As clarity of scope and timing from those separate proceedings progress, the Department reserves the right to supplement its comments and recommendations made today.

Finally, the Department remains concerned about the implications for rapid changes in the developing market for CFLs and its potential implications for future programs and budgets. At this time, we believe that given the extremely cost-effective nature of these investments they warrant continued investment by the EEU for at least the next two years. CFLs may continue to provide cost-effective program opportunities or we may see movement toward the next generation of efficient lighting through LEDs. We believe that additional monitoring and evaluation of CFLs may be warranted and are currently working with the staff of EVT to establish a timely process for updating and evaluating our baseline assumptions for the technology as it relates to both savings claims and potential future EVT budgets.

Thank you for providing us with this opportunity for comment.